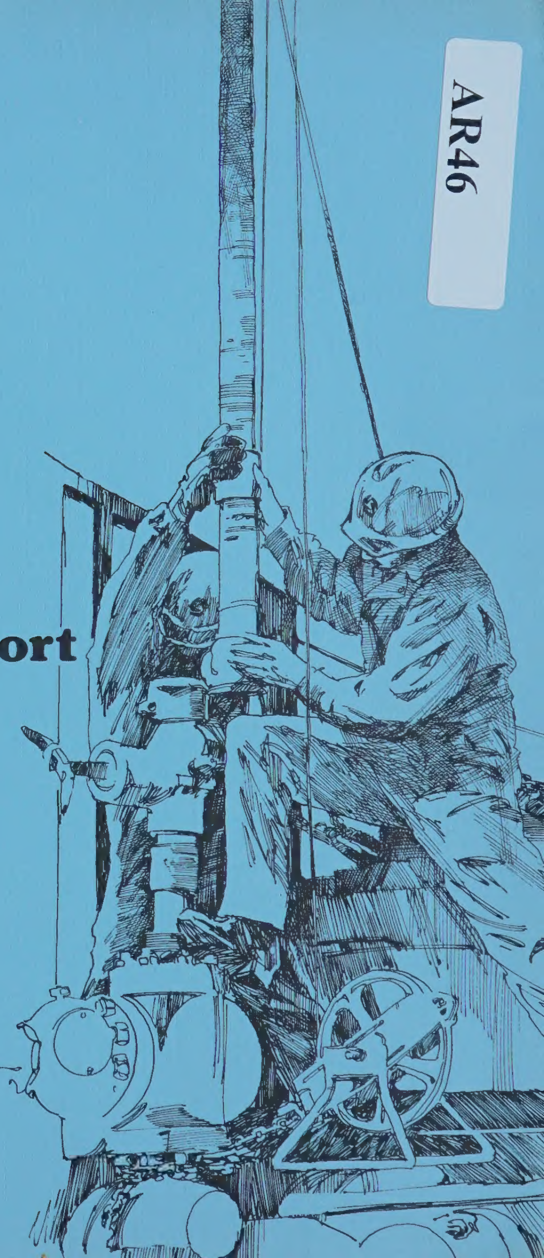
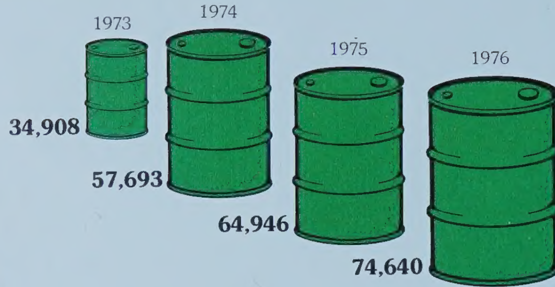
Coseka Resources Limited 1976 Report



PRODUCT SALES

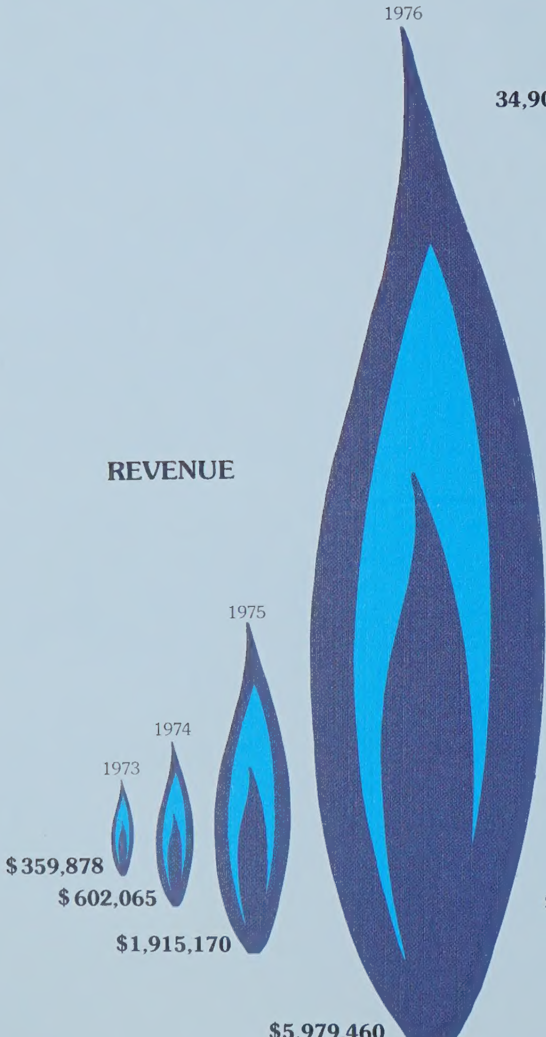
OIL, CONDENSATES, L.P.G ▪ Bbls.



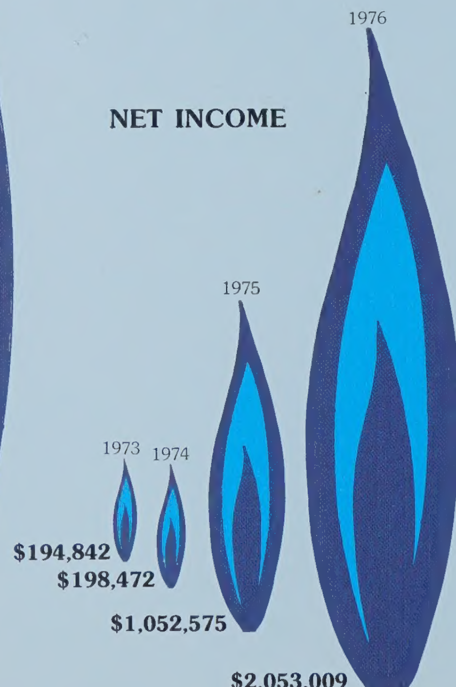
PRODUCT SALES

SULPHUR ▪ Long tons

REVENUE

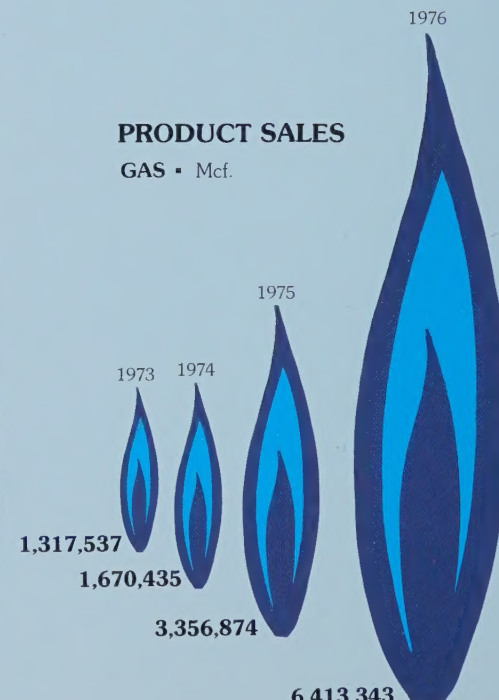


NET INCOME



PRODUCT SALES

GAS ▪ Mcf.



COSEKA RESOURCES LIMITED

Directors

Robert A. Boulware,
Calgary, Alberta,
President,
79902 Resources Limited

John S. Davidson,
Vancouver, B.C.,
Director,
Reed Shaw Osler Limited

Peter H. Grimley, B.Sc., Ph.D.,
Montreal, Quebec,
Vice-President,
Brinco Limited

Peter R. Kutney, P.Eng.,
Vancouver, B.C.,
President,
Coseka Resources Limited

Charles E. Michener, B.Sc., Ph.D.,
Toronto, Ontario,
Consulting Geologist

J. Royden Morris,
Vancouver, B.C.,

William H. McLallen, Jr.,
Vancouver, B.C.,
Vice President and Director,
Capilano Lumber Sales Ltd.

Norbert M. Peters,
Montreal, Quebec,
Vice President and General Counsel,
Brinco Limited

Bryan J. Reynolds,
Vancouver, B.C.,
Executive Vice President,
Bethlehem Copper Corporation

Officers

Chairman of the Board,
John S. Davidson

President,
Peter R. Kutney, P.Eng.

Vice President and General Manager
(Calgary Operations)
Lloyd D. Driscoll, P.Eng.

Vice President of Operations
and Administration,
Edward E. Gilbert, P.Geol.

Treasurer,
William J. Macintosh

Secretary,
Olga Zaholuk

REGISTERED OFFICE

Three Bentall Centre,
P.O. Box 49200,
595 Burrard Street,
Vancouver, B.C.
V7X 1L1

EXECUTIVE HEAD OFFICE

Suite 520, I.B.M. Tower,
701 West Georgia Street,
Box 10133, Pacific Centre,
Vancouver, B.C.
V7Y 1C6

CALGARY OFFICE

610 One Calgary Place,
Calgary, Alberta
T2P 0L4

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada,
540 Burrard Street,
Vancouver, B.C.
V6C 1E5

88 University Avenue,
Toronto, Ontario
M5H 2W5

BANKERS

The Royal Bank of Canada,
1205 West Pender Street,
Vancouver, B.C.
V6E 2V5

The Royal Bank of Canada,
Main Branch,
339 - 8th Avenue S.W.,
Calgary, Alberta
T2P 2N4

AUDITORS

Deloitte, Haskins & Sells,
1055 West Georgia Street,
Vancouver, B.C.
V6E 3P8

SOLICITORS

Lawrence & Shaw,
Three Bentall Centre,
P.O. Box 49200,
595 Burrard Street,
Vancouver, B.C.
V7X 1L1

McLaws & Company,
407 - 8th Avenue S.W.,
Calgary, Alberta
T2P 1E6

SHARES LISTED

Oil Section — Toronto Stock Exchange
— Vancouver Stock Exchange

1976 Report of the Directors to the Shareholders

The Board of Directors is pleased to submit the Annual Report and audited financial statements of the Company for the year ended July 31, 1976.

This is the second consecutive year in which the net earnings of the Company have increased by approximately $1,000,000. The Company's gas production reached an average of 17.6 million cubic feet per day for the year, and this combined with an increased wellhead price of gas (80 cents per thousand cubic feet average for the year) resulted in cash flow equal to 54.2 cents per share and net income of 32.8 cents per share. Seventy-six percent of the Company's current gas production is in Alberta and the wellhead prices now being received for Alberta production vary between $1.08 to $1.15 per million cubic feet. A further increase of some 10 cents to 15 cents per million cubic feet is expected on January 1, 1977 as a result of presently agreed upon inter-governmental pricing policies. At these levels, the wellhead price of gas still falls short of parity value with oil on an energy equivalent basis. Further increases are therefore anticipated.

During the year, capital expenditures exceeded $4.5 million, with the bulk of expenditures directed towards continued development of the Company's proven and probable gas reserves. Exploratory ventures, with the exception of those involving a number of the Company's key properties, were funded in large part through the operation of a Drilling Fund.

During the fiscal year under review, the Company participated in the drilling of 157 exploratory and development wells (45 net), which resulted in 130 gas wells (42 net), 6 oil wells (0.3 net), and 21 abandonments (2.7 net). These figures do not take into account the multi-zone completions of a large percentage of the 91 shallow gas wells comprised in the total.

For the current fiscal year, the Company has budgeted for capital expenditures of $5.7 million. A significant part of these expenditures have already been made since fiscal year end to attain higher levels of gas sales currently in effect. An extension of the Drilling Fund Agreement has recently been renegotiated, with a target expenditure of $3,000,000 by January 31, 1977. This is an addition to the $5.7 million budget previously mentioned.

The North Coleman property, which accounts for 30 to 35 percent of the Company's present cash flow, continues to perform beyond original expectations. As a result, the Company successfully negotiated with the Buyer a 60 percent increase in contract volume and commenced the drilling of an additional deliverability well. This well will be drilled below the level of the presently proved producing horizons as an exploratory test of deeper potentially productive intervals. As of the date of writing this report, the well has successfully penetrated the known productive intervals at anticipated elevations and drilling is continuing to a 16,500 foot projected total depth. The Company participates in this property to the extent of 34.2 percent.

The capacity of the Company's Compressor Plant at its Medicine Hat gas properties, owned approximately 50 percent of the Company, was doubled to 15 million cubic feet per day and, as a result of additional development drilling, the Plant is currently operating at full capacity.

Recent drilling operations on the Company's Bruce-Holden block of acreage (26,000 acres) in Alberta have been successful, with 5 out of 10 wells drilled to date completed as commercial gas wells. The Company's net participation in the drilling of these wells was 11.875 percent, of which a substantial portion has been paid for by a Drilling Fund. Drilling on this property is continuing.

In the United States, the Company's activities have centred in Louisiana (Athens), Texas (Nueces Bay), and Kansas (Hugoton). The most significant developments have occurred at Athens, where 7 additional wells have been drilled, bringing the total to 10 completed gas wells (9 wells at fiscal year

end). From a productivity standpoint, the ninth and tenth wells have proven to be the best wells drilled to date. Current total established deliverability is estimated to be in the 20 million cubic feet per day range. As of June of this year, sales contracts totalling 9.4 million cubic feet per day, at a price range of $1.50 per thousand cubic feet, have been entered into. In view of the increased deliverability attained since that date, negotiations for increased sales volumes are underway. Drilling of approximately one well per month will continue until the productive limits of the property have been defined. The Company's net interest, which is partly funded by a Drilling Fund, is approximately 18 percent.

A total of three successful multi-zone (oil and gas) completions were also made on a small tract of acreage in Nueces Bay near Corpus Christi, Texas. A fourth well will be drilled as soon as a drilling rig becomes available. The Company has a net carried interest of 6.6 percent in this project.

One of the largest projects undertaken by the Company in the United States is participation in a 224,000 acre block of acreage in the Hugoton area of Kansas. As of this date, 9 widely spaced wells have been drilled and cased as potential gas wells. A number of months ago, prior to adequate completion of production tests, all activity on this property ceased pending the resolution of litigation involving one of the Company's partners in this project. The matter has now been resolved and drilling and testing operations are about to resume under a new Operator. In the interim, active industry drilling in the area has produced a significant number of excellent gas wells, directly offsetting the Company's acreage. The Company's net participation in this project is 5.3 percent, which is also partly funded by a Drilling Fund.

During the last two months, in addition to committing to a number of exploratory ventures in Alberta and the United States totalling approximately $2,000,000 for the Company's Drilling Fund operations, the Company has committed to two major projects, one in Alberta and one in British Columbia. In the Bow Island area of Alberta, the Company is participating to the extent of 25 percent in a multi-well program covering a 61-section (39,000 acres) block of acreage. The Company has also arranged to participate to the extent of 50 percent in a 30-section block (19,200 acres) exploratory venture in the gas prone Cache Creek area of northeastern British Columbia.

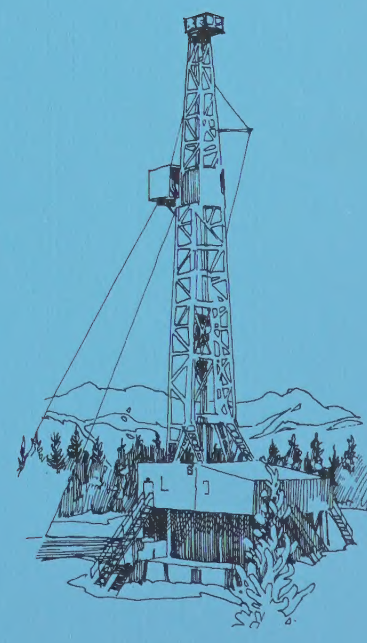
Without making allowances for further drilling successes, management foresees a continued improvement in production and revenue during the fiscal year 1977. Increases in cash flow and operating income should be very substantial over 1976. Results of the Company's new development and exploratory activities will be reported to you as the year progresses.

The Board of Directors and management of the Company appreciate the contributions of each member of the staff in making the fiscal year 1976 such an outstanding success.

John S. Davidson — Chairman.

[signature] — President.

November 15, 1976.



Financial Review

The Company's consolidated financial results, for the fiscal year ended July 31, 1976, show for the second consecutive year an extraordinary growth in sales, cash flow and net earnings. Approximately $1,000,000 was added to net earnings, increasing earnings per share to 32.8 cents (undiluted), from 17.4 cents earned in 1975. Cash flow from operations of $3,391,799 was equivalent to 54.2 cents per share (undiluted) as compared to $1,230,062 or 20.3 cents per share (undiluted) in 1975. Major contributors to these results were the commencement of gas production in North Coleman, Alberta in November of 1975 and material increases in gas prices effective in November 1975.

With the addition of natural gas sales from a U.S. property which commenced production in June 1976, increased gas sales from existing properties which are continuing to be developed, and anticipated gas price increases, the Company's 1977 fiscal period will continue to show significant growth in net earnings.

In June of 1976 the Company increased its secured bank line of credit to $7,000,000. At July 31, 1976 the undrawn balance on this arrangement was $3,005,500 which, together with its future cash flow, is felt by management to be sufficient to meet its anticipated forthcoming expenditure program.

Capital expenditures on Petroleum and Natural Gas Properties of $4,521,303 increased by $227,870 over the year ended July 31, 1975. These expenditures were predominately development in character and, as well as increasing the income of the year under review, these expenditures will have a material effect on future income.

Subsequent to July 31, 1976, the Brinco Limited Series A 8% Debentures were converted to 545,455 common shares of the Company. The following table highlights the effect of this debt conversion:

SUBSEQUENT EVENT — AUGUST 26, 1976

Conversion of $1,500,000 8% Series A Debenture
Due September 7, 1976

	July 31, 1976	Change	After Conversion
Working Capital Deficit	$2,415,458	− $1,500,000	$ 915,458
Common Shares	6,515,579	+ 545,455	7,061,034
Cash Flow Per Share (Undiluted)	54.2¢	− 4.3¢	49.9¢
Earnings Per Share (Undiluted)	32.8¢	− 2.3¢	30.5¢

Production, Development and Exploration

Production and Development

STRACHAN — Alberta

An optimum depletion and economic study was conducted on the Strachan Leduc D-3 pool early in 1976. From the study, the optimum mode of depletion includes the drilling of one additional withdrawal point with a 7-inch tubing string completion along with the installation of 6,000 horsepower inlet compression. Scheduling of the two projects has been set with an immediate start on the new well which will have an on-stream date in the spring of 1977. The installation of the compression facilities will be delayed one year, with an on-stream date in the fall of 1978. The Company's share of current production is approximately 2.2 million cubic feet per day, which will increase when the new well is completed.

A drilling program in the Strachan area is currently being carried out to evaluate the potential of the Cardium, Viking and Wabamun reservoirs. One of the recent wells drilled under this program drillstem tested 7 million cubic feet per day from the Mississippian.

TILLEY-BANTRY — Alberta

A continuous future development program in the Tilley-Bantry field will be carried out to maintain total deliverability at maximum plant capacity. The 1976 program consisted of 29 new wells, or 63 producing zone completions. Total development on the property now consists of 247 producing wells, or 554 producing zones. The project is producing approximately 24 million cubic feet per day, of which the Company's share is slightly in excess of 10 percent.

MEDICINE HAT — Alberta

The central compression plant and gas gathering facilities, in which the Company has approximately a 50 percent interest, were expanded to handle the additional gas provided by the 1976 development program. The expansion included the doubling of the plant compression capacity to 15 million cubic feet per day, along with an extension of the gas gathering system into Township 17, Range 1.

MEDICINE HAT PROPERTY No. 1

The property was drilled out on a full 160-acre spacing pattern by the drilling of an additional 15 wells, and now brings the total well count up to 45 Milk River single zone completions.

During the 1976 drilling program, the decision was made to drill several wells deeper to evaluate the potential of the deeper Second White Specks horizon. Both wells encountered a thin Second White Specks zone and initial completions have indicated commercial deliverability capabilities. Both Second White Specks wells have been dually completed with Milk River wells.

As plant capacity becomes available, further evaluation and development of the Second White Specks zone will be carried out on the Medicine Hat Property No. 1.

MEDICINE HAT PROPERTY No. 2

No additional development drilling was carried out during the 1976 operating period. However, geological studies have been completed and several wells will be taken down in the future to evaluate the potential of the deeper Second White Specks and Bow Island zones.

MEDICINE HAT PROPERTY No. 4

The Company's interest in this property was increased from a 25 percent working interest to a 37½ percent working interest through the partial acquisition of one of the other partner's interest in the property. An engineering and economic study on the depletion of the property was carried out and the decision was made to extend the development program over a select portion of the balance of the property.

A 1976 drilling program consisting of 13 Milk River single zone completions along with 23 Milk River-Medicine Hat dual zone completions has now been completed.

NORTH COLEMAN — Alberta

Operation of the North Coleman field was maintained at an efficient level during the 1976 operating period. Individual well performance has lived up to expectations and enabled the Company to maintain gas contract commitments for the field.

Renegotiations with the gas purchaser were carried out early in 1976 and resulted in an increase in maximum day contract volume of 60 percent to a volume of 40 million cubic feet per day of residue gas. In order to initiate the increased contract, the existing Saratoga Gas Plant facilities will need to be expanded, along with the drilling of an additional development well.

Negotiations with Saratoga Processing Company Limited for Plant expansion have reached a stage whereby the engineering design work is now underway.

The drilling of an additional withdrawal point in the North Coleman field has been in the planning stage for the last year. The decision was therefore made to drill the well as quickly as possible, thus providing back-up deliverability for the existing operation and meet the increased contract commitments.

Recent geological and geophysical interpretations in the North Coleman area indicate that a third and deeper Mississippian-Devonian section could be present, and structurally high enough to be hydrocarbon bearing. Based on the reserve potential of the deeper zone or zones, along with the drilling and royalty incentives which will be available, the decision was made to combine the drilling as a development and exploration test, with a tentative total depth of 16,500 feet.

Lsd 10-11-9-4 was selected as the optimum location. Drilling operations were initiated during the month of July, 1976 and, at the time of writing this report, the well has penetrated the known productive Mississippian and Devonian intervals and is continuing drilling towards the deeper targets.

HATTON — Saskatchewan

Operation of the Company's 30 percent controlled Hatton property was continued at a maximum efficiency level during the 1976 operating period. The Milk River and Medicine Hat reservoirs continue to perform at a remarkable level, with cumulative production from the project area now exceeding 4.7 billion cubic feet of gas from the existing 10 producers (13 zones). An infill dual zone Milk River-Medicine Hat well has been drilled along with a single zone Milk River well. All three new zones will be tied in to the gas gathering system and will be used to provide back-up deliverability to maintain the Plant at its maximum capacity of 8.5 million cubic feet per day.

GUNDY CREEK —British Columbia

Operations in the Gundy Creek area during the 1976 fiscal period consisted of the drilling of 5 Triassic test wells; 4 on the east structure and one on the west structure. In addition, a former suspended well on the west structure was recompleted as a one million cubic feet per day producer. The 1976 program therefore resulted in 4 gas producers, one abandoned well, and one suspended well. In total, there are now six producing wells on the property.

Further development on both the east and west structure is programmed for the 1976-77 operating period. Consideration is also being given to drill a deeper test to evaluate the Mississippian zones.

OTTER — Alberta

To date no further drilling in the Otter area has been attempted. Detailed geological and geophysical reviews on the property indicate a number of potential locations, and therefore, it is anticipated that additional development will be carried out this winter.

ATHENS — Louisiana, U.S.A.

Development on the Athens property was carried out on a continuous basis during 1976. To date the program has resulted in ten successful gas wells. Eight of the wells have been completed as single zone Hosston gas wells, with a number of potential hydrocarbon bearing zones untested behind the casing.

The ninth well was drilled deeper to evaluate the potential of the Cotton Valley horizon at a depth of approximately 10,000 feet. Three porous zones were indicated from log evaluations. A more thorough evaluation of these zones is now being carried out by down-hole completion operations.

Continuation of the development program will be maintained until either the limits of the reservoir have been delineated or the property has been developed in full. If the Cotton Valley horizon proves to be commercially productive during the test operations, additional drilling for the deeper zones will be carried out to the extent of the reservoir limits over the property.

During the month of June, 1976, the property was placed on stream at a rate of approximately 4 million cubic feet per day. Additional gas contracts have been negotiated and deliveries from the property have been increased to rates in excess of 9 million cubic feet per day. Based on production tests of the current ten wells, it is estimated that the property has an existing total completed deliverability of approximately 20 million cubic feet per day. Production tests to date have also established liquid recovery of ten to eleven barrels of condensate per million cubic feet of gas production.

DRILLING RESULTS - 1976 *

	Gross	Net
GAS	130	41.95
OIL	6	0.27
DRY	21	2.73
	157	44.95

**Note:* The Company has discontinued the practice of assigning a well count to each zone of a multi-zone completed shallow gas well.

Exploration

CARBONDALE — Alberta

During 1976, two wells were drilled on separate seismic inferred structures on the Carbondale lands. The first well missed the eastern edge of the folded structure, whilst the second well failed to establish a porous reservoir. As a result of the Company's participation in the drilling of these two wells, it has fully earned its interest in the 53,000 acre prime foothills acreage. Re-evaluation of the structures on the property is now being completed for the purpose of carrying out a further drilling evaluation program.

BENJAMIN CREEK — Alberta

Having regard to the Company's major involvement in two other foothills projects, the decision was made to farm out its interest in the property in consideration for a gross overriding royalty. Currently an evaluation well to establish the potential of the Mississippian reservoir is being drilled on the property.

BURNT LAKES — Alberta

During the early part of 1976, a well was drilled to evaluate the middle Devonian Carbonate zone. After an extensive testing operation, the zone was found to contain non-commercial amounts of hydrocarbons and the well was subsequently abandoned. The Company has now surrendered its interest in the property.

VENUS — Alberta

The Venus property was farmed out during 1976 and four evaluation wells were drilled on the property. All of the four wells were abandoned. However, some evidence of a gas reservoir was established and additional follow-up drilling is proposed for the area.

MUSKEG — Alberta

The Company, through its Drilling Fund operations, acquired an interest in the Muskeg area in central Alberta. A 6,850 foot well was drilled to evaluate the potential of the Cardium and Second White Specks zones. Following extensive testing operations, the well was completed in the Cardium zone as a marginal oil producer. The Muskeg area is now encountering considerable activity and the Company is entertaining the possibility of drilling a follow-up well.

BRUCE-HOLDEN — Alberta

During 1976, the Company, through its Drilling Fund operations, acquired a 12.5 percent interest in approximately 18,000 acres in the Bruce region of east central Alberta. Through farmout arrangements, this interest was increased up to a 25 percent level. The Company then pooled its interest with Voyager Petroleums, which resulted in a 17.2 percent combined Coseka-Drilling Fund partner working interest in the pooled lands consisting of 26,000 acres. An extended drilling program has, and is, being carried out in the area and to date has resulted in two multi-zone producing wells and four single zone producing wells. Additional drilling will be carried out on the property during the next few months, with a view of attempting to place the area on stream by early 1977.

LITTLE SMOKY — Alberta

The Company acquired a 32.5 percent interest in 20,000 acres of land in the Little Smoky area of central Alberta.

Two wells have been drilled to date on the property, with the first well being completed as a significant Viking gas well. The second well failed to establish a porous reservoir and was abandoned. Negotiations are currently underway to acquire additional farm-in lands in the area. Several earning wells will be drilled along with a follow-up well to the gas discovery.

EAST PARKLAND — British Columbia

A 12,000-foot evaluation well was drilled on the East Parkland (Mica) property during the spring of 1976. The deep horizons were found to be non-commercial, however, the Triassic formation was found to be hydrocarbon bearing. Subsequently, production tests resulted in a commercial oil well of approximately 100 barrels of oil per day. Further drilling in the area is scheduled for this winter. The Company's interest in this project is only 3.75 percent.

VELMA — British Columbia

Again, through its Drilling Fund, the Company acquired an interest in 27,200 acres of land in the Velma area of northeastern British Columbia through the drilling of two earning wells. The first well encountered hydrocarbons in the Triassic and Gething zones. Subsequent testing and completion operations established the Gething zone to be gas bearing and the Triassic zone to be oil bearing. The well was completed as an oil well and placed on production. The second earning well established the Gething zone to be hydrocarbon bearing and is classified as a potential gas well. Further drilling on the property is scheduled for this winter.

SOUTH CLARKE LAKE — British Columbia

The Company and its Drilling Fund partner acquired a farmout in the South Clarke Lake area and earned an interest in a 10,000-acre block through the drilling of a Slave Point test. Following the review of an extensive seismic program, the earning well was taken down to the Slave Point horizon. No hydrocarbons were encountered and the well was subsequently abandoned. A further seismic review is presently being carried out with the view towards drilling a second evaluation well.

EAST TEXAS — U.S.A.

By employing Drilling Funds, on a fully carried basis, four separate prospects were drilled in the East Texas area during 1976. Three of these pros-

pects were dry, while the fourth, which is located in the Nueces Bay area, established commercial oil and gas reserves in a number of separate reservoirs. The well was completed as a dual oil and gas producer and placed on production during the month of February, 1976. Two follow-up wells have now been drilled and also completed as dual zone oil and gas producers. Currently both wells are waiting on production and pipeline facilities. A fourth development well is now scheduled and will be drilled upon rig availability.

JAMESTOWN, LOUISIANA — U.S.A.

The Jamestown prospect, which is just west of the Athens area in northwest Louisiana, was acquired as a farmout project in the spring of 1976. An earning well was drilled at no cost to the Company and failed to establish commercial quantities of hydrocarbons. However, through the drilling of this well, the Company has earned an interest in a large block of lands. Drilling in the general area is fairly active and further evaluations on the earned lands is planned.

BEAVER COUNTY, OKLAHOMA — U.S.A.

A multi-well project was carried out during 1976 in the Beaver County area of Oklahoma. Ten separate prospects were drilled which resulted in eight gas wells containing one or more producing horizons. Six of the eight wells are now on production, with the other two waiting on gas contract approval. Several of the eight successful wells have offsets which will be drilled in the near future. The Company earned a carried interest from its Drilling Fund partner.

PANOMA-HUGOTON, KANSAS — U.S.A.

The Company, in participation with its Drilling Fund partner, acquired an interest in 224,000 acres of land in the Panoma-Hugoton area of southwestern Kansas. To date, nine earning wells have been drilled and completed as potential gas producers. An evaluation of the property is scheduled for the near future, along with an aggressive development program.

Notes to the Summary of Total Company Wells.

(1) The Company has now adopted the practice of designating as a single well all shallow gas multi-zone completions. In other cases, each zone of a multi-completion well is counted as one well. The 1975 statistics have been adjusted accordingly.

(2) Multi-zone completions.

Summary/Total Company Wells [1]

		1976		1975	
		Gross	Net	Gross	Net
GAS	**ALBERTA**				
	Strachan	5.0	0.08	5.0	0.08
	Tilley-Bantry	247.0	24.76	218.0	21.85
	Coleman	5.0 [2]	1.71	5.0 [2]	1.71
	Medicine Hat	136.0	86.50	75.0	50.15
	South Ricinus	1.0	0.17	1.0	0.17
	Virgo	1.0	0.23	1.0	0.23
	Atmore	2.0	0.25	2.0	0.25
	Holden	8.0	0.58	8.0	0.58
	Benjamin Creek	1.0	0.07	1.0	0.07
	Bruce	6.0	0.65	—	—
	SASKATCHEWAN				
	Hatton	18.0	5.40	16.0	4.80
	NORTHEASTERN BRITISH COLUMBIA				
	Buick Creek	1.0	1.00	1.0	1.00
	Rigel	1.0	1.00	1.0	0.50
	Gundy Creek	6.0	2.83	2.0	0.74
	Velma	2.0	0.06	—	—
	U.S.A.				
	Athens - Louisiana	9.0	1.60	2.0	0.53
	Nueces Bay - Texas	3.0 [2]	0.15	—	—
	Beaver County - Oklahoma	8.0	0.08	—	—
	Panoma-Hugoton - Kansas	9.0	0.48	—	—
	TOTAL GAS	469.0	127.60	338.0	82.61
OIL	**ALBERTA**				
	Otter	2.0	0.95	2.0	0.95
	South Sylvan Lake	3.0	0.60	3.0	0.60
	Sunset	1.0	0.50	1.0	0.50
	Muskeg	1.0	0.05	—	—
	NORTHEASTERN BRITISH COLUMBIA				
	Velma	1.0	0.03	—	—
	East Parkland	1.0	0.04	—	—
	U.S.A.				
	Grayson County - Texas	2.0	0.50	2.0	0.50
	Nueces Bay - Texas	3.0 [2]	0.15	—	—
	TOTAL OIL	14.0	2.82	8.0	2.55

Company Land Holdings

	Gross Acres	Net Acres
North America		
1 — Strachan	42,240	568
2 — Tilley-Bantry	104,600	10,426
3 — Medicine Hat	48,800	25,128
4 — Coleman	20,160	6,898
5 — Holden	16,960	1,235
6 — Hatton	36,800	11,040
7 — South Ricinus	7,680	907
8 — Atmore	8,640	1,440
9 — Gundy Creek	17,159	6,918
10 — Rigel	3,840	2,240
11 — Judy Creek	2,240	280
12 — Adsett	29,449	1,044
13 — Dahadinni	57,660	1,570
14 — Buick Creek	3,493	1,581
15 — Sylvan Lake	800	160
16 — Benjamin Creek	23,043	G.O.R. 0.94%
17 — Carbondale	52,614	7,548
18 — East Parkland	30,316	1,137
19 — Capella	8,320	624
20 — Venus	50,880	3,053
21 — Sunset	2,240	1,120
22 — Virgo	320	72
23 — Little Smoky	20,160	6,552
24 — Otter	4,320	1,026
25 — New Norway	800	46
26 — Bruce-Holden	26,030	2,127
27 — Clarke Lake	10,052	1,592
28 — Halfway	2,840	675
29 — Velma	9,643	350
30 — Muskeg	2,080	146
31 — Athens	5,120	912
32 — Hugoton	224,000	11,971
33 — Nueces Bay	1,200	79
34 — Beaver County	8,320	161
35 — Grayson County	258	32
36 — Jamestown	1,450	42
Subtotal	884,527	110,700
Foreign		
Netherlands, North Sea	55,575	5,558
TOTAL	940,102	116,258

COSEKA RESOURCES LIMITED AND SUBSIDIARY COMPANIES (Under the Companies Act, British Columbia)

Consolidated Statement of Financial Position

AS AT JULY 31, 1976
(With prior year figures for comparison)

	1976	1975
CURRENT ASSETS:		
Cash	$ 62,980	$ 123,176
Term deposits and short-term notes	15,000	110,000
Accounts receivable	1,807,951	854,487
Marketable securities — at cost (market value 1976 - $394,000; 1975 - $332,000)	128,973	128,973
Inventories of equipment for resale and materials - at the lower of cost or net realizable value	12,685	170,352
Prepaid expenses	29,465	15,770
Total current assets	2,057,054	1,402,758
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	2,080,164	840,003
Current portion of long-term debt	2,392,348	482,700
Total current liabilities	4,472,512	1,322,703
WORKING CAPITAL (DEFICIENCY)	(2,415,458)	80,055
INVESTMENTS - at cost or nominal value as appropriate	105,647	112,366
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 2)	18,154,668	13,769,262
OTHER ASSETS	89,411	116,164
	15,934,268	14,077,847
DEDUCT:		
Long-term debt (Note 3)	6,012,368	6,963,300
Deferred income taxes	989,276	115,577
Deferred income (Note 4)	86,718	205,368
Minority interests	317,269	330,084
	7,405,631	7,614,329
EXCESS OF ASSETS OVER LIABILITIES	$ 8,528,637	$ 6,463,518
SHAREHOLDERS' EQUITY:		
Share capital (Note 5)	$ 5,293,086	$ 5,236,021
Contributed surplus	88,204	88,204
Retained earnings	3,147,347	1,139,293
Total shareholders' equity	$ 8,528,637	$ 6,463,518

APPROVED BY THE BOARD:

John S. Davidson
Director

Director

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED JULY 31, 1976
(With prior year figures for comparison)

	1976	1975
RETAINED EARNINGS AT BEGINNING OF THE YEAR	$ 1,139,293	$ 93,646
NET INCOME FOR THE YEAR	2,053,009	1,052,575
COSTS WRITTEN OFF ON MINERAL PROPERTIES ABANDONED - net of $12,600, (1975 - $2,069) minority interests	(42,659)	(6,928)
PREMIUM ON REDEMPTION OF 6% EXCHANGEABLE SHARES (Note 5)	(2,296)	—
RETAINED EARNINGS AT END OF THE YEAR	$ 3,147,347	$ 1,139,293

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED JULY 31, 1976
(With prior year figures for comparison)

	1976	1975
FUNDS PROVIDED:		
Generated by operations	$ 3,391,799	$ 1,230,962
Proceeds of debenture issue	—	3,500,000
Proceeds of share issue	101,000	9,000
Bank and production loans	1,458,784	1,696,000
Deferred income	—	205,368
Gain on sale of marketable securities	—	114,616
Proceeds from sales and option payments received on mineral properties	10,350	110,000
Total Funds Provided	4,961,933	6,865,946
FUNDS APPLIED:		
Expenditures on petroleum and natural gas properties	4,521,303	4,293,433
Principal reduction in bank and production loans	909,716	1,900,120
Expenditures on mineral properties	185,843	313,363
Expenditures on fixtures and equipment	175,043	67,381
Net expenditures on other assets	1,536	42,642
Current portion of Series A debenture	1,500,000	—
Redemption of 6% exchangeable shares	45,355	—
Reduction in deferred income	118,650	—
Total Funds Applied	7,457,446	6,616,949
(DECREASE) INCREASE IN WORKING CAPITAL FOR THE YEAR	(2,495,513)	248,997
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR	80,055	(168,942)
WORKING CAPITAL (DEFICIENCY) AT THE END OF THE YEAR	$ (2,415,458)	$ 80,055

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Income

FOR THE YEAR ENDED JULY 31, 1976
(With prior year figures for comparison)

	1976	1975
INCOME:		
Sales	$ 5,979,460	$ 1,915,170
Royalties	(1,502,639)	(374,041)
Income net of royalties	4,476,821	1,541,129
EXPENSES - excluding depletion, depreciation and amortization:		
Operating	860,543	219,503
Administrative	224,479	90,664
Total expenses	1,085,022	310,167
FUNDS GENERATED BY OPERATIONS	3,391,799	1,230,962
OTHER CHARGES:		
Depletion, depreciation and amortization	465,098	187,419
INCOME BEFORE INCOME TAXES, EXTRAORDINARY ITEMS, AND MINORITY INTERESTS	2,926,701	1,043,543
PROVISION FOR INCOME TAXES - deferred	873,907	415,476
INCOME BEFORE EXTRAORDINARY ITEMS AND MINORITY INTERESTS	2,052,794	628,067
EXTRAORDINARY ITEMS:		
Gain on sale of marketable securities	—	85,962
Reduction of income taxes deferred	—	361,012
Total extraordinary items	—	446,974
INCOME BEFORE MINORITY INTERESTS	2,052,794	1,075,041
MINORITY INTERESTS	215	(22,466)
NET INCOME FOR THE YEAR	$ 2,053,009	$ 1,052,575
EARNINGS PER SHARE	Note 7	

The accompanying notes are an integral part of the consolidated financial statements.

COSEKA RESOURCES LIMITED
AND SUBSIDIARY COMPANIES

Notes to the Consolidated Financial Statements

JULY 31, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of Consolidation:
The consolidated financial statements include the accounts of the following subsidiaries since their respective dates of acquisition or formation:

Coseka Resources (U.S.A.) Limited	— 100.0% owned
Wharf Resources Ltd.	— 76.9% owned
Safari Oil & Gas Limited	— 80.0% owned

There are other subsidiaries which are inactive and have neither assets nor liabilities and are carried at nominal value.

(b) Petroleum and Natural Gas Properties:
The company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs, including a portion of administrative expenses relating to the exploration for and development of oil and natural gas reserves are capitalized. For the year ended July 31, 1976, administrative expenses of $972,300, including interest, have been capitalized. Proceeds received from disposal of properties are credited against accumulated costs. Depletion and depreciation of net costs are provided for by the unit-of-production method based on the company's total estimated recoverable reserves on all properties.

(c) Mineral Properties:
The company follows the practice of capitalizing all costs, including a portion of administrative expenses of $30,700 capitalized during the year, relating to the exploration for and development of mineral properties and crediting all sales and option payments received against the costs of related properties. The company considers the mining exploration and development activities of its subsidiary to be a separate business from its activities in the petroleum and natural gas industry. As recommended in the Canadian Institute of Chartered Accountants' research study on non-producing mining companies, the aggregate of the costs related to mineral properties abandoned is charged to retained earnings at the time of abandonment.

(d) Other Property and Equipment:
Other property and equipment are recorded at cost. Office fixtures and equipment and automotive equipment are depreciated using the straight-line method at rates varying from 20% to 30%. Leasehold improvements are amortized over the terms of the leases.

(e) Translation of Foreign Currencies:
Accounts maintained in foreign currencies have been translated into Canadian funds on the following bases:

Current assets and liabilities	— at the year end rate.
Property, plant and equipment	— at the rate at the time of acquisition
Income and expenses	— at the average rate for the year.

Notes to the Consolidated Financial Statements (cont'd)

2. PROPERTY, PLANT and EQUIPMENT:

The balance is comprised of the following:

	Carrying Values (Note 1)	Accumulated Depletion, Depreciation, and Amortization
Petroleum and natural gas leases and production facilities	$17,751,472	$712,617
Mineral properties	883,102	—
Other property and equipment	276,211	43,500
TOTAL	$18,910,785	$756,117

3. LONG-TERM DEBT:

Long-term debt comprises:

(a) 8% Convertible Debentures:	
Series A due September 7, 1976 (Note 9)	$1,500,000
Series B due August 1, 1979	3,500,000
	5,000,000
(b) Demand Bank Loan	3,353,900
(c) Non-interest Bearing Production Loan	50,816
	8,404,716
Less Current Portion	2,392,348
Net Long-Term Debt	$6,012,368

(a) Convertible Debentures:

The debentures are secured by a first floating charge on all present and future assets of the company, and are convertible before maturity into common shares at $2.75 per share and $3.00 ($3.50 after August 1, 1977) per share respectively. Under the terms of a financing agreement, the debenture holder has certain rights of first refusal in any subsequent equity financing required by the company.

On August 26, 1976, the 8% Series A debenture due September 7, 1976, was converted, according to the debenture agreement, into 545,455 common shares (see Note 9).

The agreement restricts, without the prior consent of the debenture holder, any change in the capital structure of the company, the payment of dividends, and the assumption of additional indebtedness by the company and its subsidiaries.

(b) Demand Bank Loan:

The bank loan in the amount of $2,496,752, net of current portion of $867,148 is secured by a general assignment of accounts receivable and assignments of the company's interest in certain petroleum and natural gas properties. The loan bears interest at prime rate (10¼% at July 31) plus ¾% and is repayable in monthly instalments of $75,000 plus interest to June, 1977, and in equal monthly instalments plus interest thereafter for five years.

(c) Non-Interest Bearing Production Loan:

This amount is secured by an assignment of future production of certain natural gas properties, $25,200 is repayable within one year.

Interest on long-term debt and debenture discount amortized during the year ended July 31, 1976 totalled $730,667 (1975 - $618,082), of which $565,423 (1975 - $532,151) was capitalized as part of petroleum and natural gas and mineral properties, and $165,244 (1975 - $85,931) was charged to operating expenses.

4. DEFERRED INCOME:

Deferred income consists of amounts received in advance of delivery of gas, net of related royalties and will be transferred to income when the gas is delivered.

5. SHARE CAPITAL:

Details of share capital are as follows:

Authorized:

1,200,000 6% exchangeable shares of no par value

10,000,000 common shares of no par value

Issued and fully paid:

	Shares	Amount
6% Exchangeable Shares:		
Balance July 31, 1975	339,901	$ 509,852
Exchanged for common shares	(311,195)	(466,793)
Redeemed	(28,706)	(43,059)
Balance July 31, 1976	—	—
Common Shares:		
Balance July 31, 1975	6,159,884	4,726,169
Issued for exchangeable shares	311,195	466,793
Issued under employee stock option plan	44,500	100,124
Balance July 31, 1976	6,515,579	$5,293,086

During the year the company redeemed for cash, the balance of the issued 6% exchangeable shares for $45,355. The premium of $2,296 in excess of original issue price has been charged to retained earnings.

At July 31, 1976 a total of 2,269,103 (1975 - 2,512,235) common shares of the company were reserved to meet the conversion privileges of the debentures (Notes 3 and 9) and the stock options outstanding (Note 6).

6. STOCK OPTIONS:

(a) Employees and Officers:

At July 31, 1976, 130,500 common shares were reserved for the exercise of options granted to officers and employees, at $2.25 per share. The options are exercisable 20% on each of the following four anniversary dates, with cumulative rights to acquire in subsequent years shares not acquired during previous years. The options are subject to restrictions relating to the optionee's employment with the company, and expire on varying dates during the twelve month periods ending January 16, 1980. During the year, options in respect of 15,000 shares were cancelled, 25,000 additional shares were reserved and 44,500 shares exercised.

(b) Partner in a Drilling Fund:

An option has been granted to a partner in a drilling fund to acquire up to 300,000 common shares at $2.75 per share. The option expires on December 31, 1976.

(c) Shareholder:

The company has granted to a shareholder the right to acquire on or before January 15, 1977 sufficient common shares at $2.75 per share to maintain its percentage interest in the company should the drilling partner exercise the option referred to in Note 6(b). The percentage interest is to be calculated taking into account the conversion rights attaching to the debentures referred to in Note 3. Assuming the exercise of all options under 6(b), a maximum of 126,481 shares would be issuable under the option to the shareholder.

7. EARNINGS PER SHARE:

Earnings per common share calculated on the basis of the daily weighted average number of shares outstanding during the year are as follows:

	1976	1975
Income before extraordinary items	32.8¢	10.0¢
Extraordinary items	—	7.4
Net Income for the Year	32.8¢	17.4¢

If all of the 6% exchangeable shares outstanding at the beginning of the year had been converted to common shares at that time, the debentures referred to in Note 3 had been converted at the beginning of the year, and the stock options referred to in Note 6 had been exercised at the beginning of the year, the fully diluted earnings per share would have been:

	1976	1975
Income before extraordinary items	25.4¢	7.8¢
Extraordinary items	—	5.5
Net Income for the Year	25.4¢	13.3¢

For purposes of calculating the fully diluted earnings per share, earnings, net of income taxes, attributable to common shares have been increased by approximately $85,700 resulting from a reduction in debenture interest expense, a reduction in depletion expense relative to the debenture interest which has been capitalized in petroleum and natural gas properties and an assumed rate of return of 9% on the proceeds which would have been received on exercise of the stock options.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate remuneration paid or payable by the company to directors and senior officers, as defined in the Companies Act, British Columbia, amounted to $182,167 ($141,167 in 1975).

9. SUBSEQUENT EVENT:

On August 26, 1976, the 8% Series A debenture due September 7, 1976 was converted, according to the debenture agreement, into 545,455 common shares. This transaction results in a subsequent increase in working capital of $1,500,000.

Pro-forma earnings per common share, calculated on the basis that the foregoing conversion had taken place at the beginning of the year would be 30.5¢ per share.

Auditors' Report

To the Shareholders of
Coseka Resources Limited:

We have examined the consolidated statement of financial position of Coseka Resources Limited and subsidiary companies as at July 31, 1976 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at July 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
October 7, 1976

DELOITTE HASKINS & SELLS
Chartered Accountants

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COSEKA RESOURCES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Six Months Ended January 31st 1976	Six Months Ended January 31st 1975
REVENUE	$ 2,537,679	$ 647,243
LESS: ROYALTY PAYMENTS	609,050	154,935
NET REVENUE	$ 1,928,629	$ 492,308
OPERATING EXPENSES	285,392	92,525
ADMINISTRATIVE EXPENSE (NET OF RECOVERY)	70,810	45,921
	$ 356,202	$ 138,446
FUNDS GENERATED FROM OPERATIONS	$ 1,572,427	$ 353,862
PROVISION FOR DEPLETION, DEPRECIATION, AND AMORTIZATION	161,525	44,388
PROVISION FOR INCOME TAXES, DEFERRED	538,882	235,296
	$ 700,407	$ 279,684
INCOME BEFORE EXTRAORDINARY ITEMS AND MINORITY INTERESTS	$ 872,020	$ 74,178
EXTRAORDINARY ITEMS AND MINORITY INTERESTS	446	298,088 (1)
NET INCOME FOR THE PERIOD	$ 872,466	$ 372,266
EARNINGS PER SHARE (Undiluted)		
Funds Generated by Operations	25.4¢	5.8¢
Net Income for the Period ~~[illegible]~~ Before Extra	14.1¢ 14.1¢	6.0¢ 1.2¢

74,
6,101,0

(1) Includes sale of marketable securities held by subsidiary company (1975 — $114,616), and reduction of income taxes payable as a result of utilization of deferred tax credits (1976 — Nil; 1975 — $235,296).

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)

	Six Months Ended January 31st 1976	Six Months Ended January 31st 1975
FUNDS PROVIDED:		
Funds from Operations	$ 1,572,427	$ 353,862
Proceeds from Issue of Convertible Debenture	—	3,500,000
Proceeds from Issue of Common Shares (Exercise of Employee Option)	22,500	—
Deferred Take-or-Pay Income, Natural Gas	367,434	—
Proceeds from Sale of Investment	—	114,616
	$ 1,962,361	$ 3,968,478
FUNDS APPLIED:		
Property, Plant and Equipment	$ 1,683,637	$ 3,148,572
Reduction in Principal Portion of Long Term Debt	1,753,600	1,517,420
Financing Costs	—	17,258
Other	6,446	8,800
	$ 3,443,683	$ 4,692,050
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE SIX MONTHS	$(1,481,322)	$ (723,572)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF PERIOD	80,055	(168,942)
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD	$(1,401,267)	$ (892,514)

John L. Davidson
Director

[illegible]
Director

AR46

REPORT TO THE SHAREHOLDERS

For the Six Months ended January 31, 1976

File

COSEKA RESOURCES LIMITED
~~Suite 520, I.B.M. Tower, Box 10133, Pacific Centre~~
701 West Georgia Street, Vancouver B.C. V7Y 1C6
604-682-4505

FINANCIAL:

The Company's financial affairs continue to show major gains in sales, cash flow and net profit for the first six month fiscal period ended January 31, 1976. Gross sales from Petroleum and Natural Gas Properties, when compared to the January 31, 1975 six month period, increased from $647,243 to $2,537,679, an increase of 3.9 times. This material change was contributed by new discoveries, additional development of existing properties, higher gas prices, and the commencement of sales on November 5, 1975 from the North Coleman property. It is estimated that this property alone will contribute approximately $125,000 net cash flow per month during the balance of this fiscal year ending July 31, 1976. Funds generated by operations in the amount of $1,572,427 for this period, or 25.4 cents per share (undiluted) increased 4.4 times over the $353,862 shown in last year's similar accounting period.

Income before extraordinary items and minority interests equalling $872,020 increased materially by $797,842, or 11.75 times over the similar period ending January 31, 1975. Comparing this profit level of the Company's performance is significant as a realistic measurement of operations as the net income for the fiscal first half ended January 31, 1975 includes, under extraordinary items, a profit on the sale of securities in a subsidiary company of $114,616, and an add-back to profit of certain deferred tax credits available at that time, but which were ultimately utilized in full as at July 31, 1975 and are, therefore, nonrecurring. Notwithstanding, the net income of $872,466 for the six month period ended January 31, 1976 is an increase of $500,200 over the comparative period under review, and equals 14.1 cents per share (undiluted) as compared to 6.0 cents per share (undiluted).

The Company's accounts show a working capital deficit of $1,401,267 as at January 31, 1976. This deficit arises, in its entirety, from the current portion of long term debt relating to the 8% Secured Convertible Debenture, Series "A", totalling $1,500,000, which is due for retirement or conversion at $2.75 per share on or before September 7, 1976. The Company has not been notified by the Debenture holder as at the date of this Report of any intention to convert this Debenture.

DRILLING OPERATIONS:

Carbondale (Southwestern Alberta)

The second exploratory well on the Company's Carbondale acreage has been spudded and is currently drilling at a depth of 1,200 feet. The well is located seven and one-half miles due south of the North Coleman acreage. The well is scheduled to be drilled to a depth of 13,500 feet.

North Coleman

The Company has negotiated a sizeable increase in contract volume for its North Coleman field. Subject to approval of Partners and the obtaining of a commitment for additional processing capacity at the Saratoga Processing Plant, an additional well will be drilled commencing this summer.

Gundy Creek (Northeastern British Columbia)

Of the two additional wells recently drilled on the Company's Gundy Creek property, one well is a commercial gas well, while the other appears to be too marginal to warrant connection to the pipeline. Following spring break-up, additional drilling will continue. Currently there are five wells on production and one well awaiting connection.

Athens (North Louisiana, U.S.A.)

A fourth successful gas well has been drilled and is currently awaiting completion. The Company is now in the process of drilling a fifth well. Production from the field is now estimated to commence on or about April 15, 1976.

Corpus Christi (Texas, U.S.A.)

An onshore drilling site is now being prepared from which three directional wells will be drilled as follow-up to the oil and gas discovery made late last year. The discovery well is currently producing 160 barrels of oil per day, and the gas from the dually completed well is in the process of being connected for sale.

Hugoton (Kansas, U.S.A.)

Seven wells of the ten-well exploratory program have now been drilled. Production casing has been set on all wells, and they are currently in the process of being production tested.

Beaver County (Oklahoma, U.S.A.)

A total of ten wells have now been completed as commercial gas wells out of a total of 12 wells drilled to date. One well is left to be drilled under the current thirteen-well program.

Blaine County (Montana, U.S.A.)

The Company, participating as to 50 percent, has obtained a Farmout from Amoco Production Company covering approximately 70,000 acres in Blaine County, Montana. After extensive geological studies, the Company is convinced the area has an above-average potential for shallow gas reserves down to a depth of 2,800 feet. The first exploratory well is scheduled to commence drilling immediately.

OTHER DRILLING RESULTS:

The Company participated in a successful oil and gas discovery in the Velma area of Northeastern British Columbia and certain Crown lease acquisitions adjoining the discovery well.

Two exploratory tests, one in the Clarke Lake area of Northeastern British Columbia and the other near Jamestown, Louisiana, were abandoned during the past quarter.

Respectfully submitted,

P. R. KUTNEY,
President.

April 8, 1976.

AR46

EMENT OF INCOME
dited)

	Six Months Ended January 31st 1977	1976
	$5,023,923	$2,537,679
	1,344,662	609,050
	$3,679,261	$1,928,629
	658,018	285,392
	138,685	70,810
	$ 796,703	$ 356,202
	$2,882,558	$1,572,427
AMORTIZATION	321,186	161,525
	720,353	538,882
	$1,041,539	$ 700,407
	$1,841,019	$ 872,020
	(816)	446
	$1,841,835	$ 872,466
	40.8¢	25.4¢
	26.0¢	14.1¢
	33.3¢	18.0¢
	21.3¢	10.0¢

HANGES IN FINANCIAL POSITION
dited)

	Six Months Ended January 31st 1977	1976
	$2,882,558	$1,572,427
	1,500,000	–
	1,301,998	22,500
	1,421,125	610,000
	(86,718)	367,434
rta	342,609	–
	7,361,572	2,572,361
	3,599,764	1,689,983
	932,015	2,363,600
	6,455	100
	4,538,234	4,053,683
THE PERIOD	2,823,338	(1,481,322)
F PERIOD	(2,415,458)	80,055
OD	$ 407,880	$(1,401,267)

otalling 426,254 shares; $1,172,198, were exercised sing of Employee Options totalling 56,000 shares;

INTERIM REPORT TO THE SHAREHOLDERS

For the Six Months ended January 31, 1977

YCOSEKA

COSEKA RESOURCES LIMITED

Suite 520, I.B.M. Tower,
701 West Georgia Street,
Vancouver, B.C. V7Y 1C6

COSEKA RESOURCES LIMITED AND SUBSIDIARY COMPANIES

FINANCIAL

Financial results for the six month period ended January 31, 1977 continue to reflect material increases in operating revenue and net income results over the comparative period ending January 31, 1976 as shown by the following table:

	1977	1976	Increase	% Increase
Sales	$5,023,923	$2,537,679	$2,486,244	97.9
Cash Flow	2,882,558	1,572,427	1,310,131	83.8
Net Income	1,841,835	872,466	969,369	111.1
Earnings Per Share				
Weighted Average:				
Cash Flow	40.8¢	25.4¢	15.4¢	60.6
Net Income	26.0¢	14.1¢	11.9¢	84.4
Fully Diluted:				
Cash Flow	33.3¢	18.0¢	15.3¢	85.0
Net Income	21.3¢	10.0¢	11.3¢	113.0

Properties, whose sales were the major contribution to these increases, were North Coleman, Alberta, with a full six months production in this period against three months in the comparative period of 1976, Medicine Hat and Tilley-Bantry, Alberta, with substantially higher levels of production, and Athens, Louisiana, which commenced production in June of 1976. Continuing price increases also had an effect on the 1977 results.

During this period the Company's Series "A" Debenture of $1,500,000 was converted to 545,455 common shares and, along with the exercise of Share Purchase Options of 426,254 common shares and the exercise of 56,000 shares of Employee Options, contributed $2,801,998 to the company's working capital.

Substantial development expenditures have been made in this six month period on numerous producing properties in which the Company holds interests. These investments have increased, or are expected to increase, the income from these properties or, in some cases, maintain the present rate of production.

The Company continues to maintain a $7,000,000 secured bank line of credit, with borrowings to January 31, 1977 of $3,772,900. The balance will be used, in part, to acquire additional reserves and for further development of existing reserves. The Company, with its increased cash flow, is able to service this larger bank debt and continue to maintain its exploration programs.

EXPLORATION AND DEVELOPMENT

During the six month period under review, the drilling activities of the Company were predominantly exploration in character. Geographically these operations were widely diversified, extending from Louisiana, U.S.A. to Fort Nelson, British Columbia.

The Company participated in a total of 42 wells, comprising of 23 in Alberta, 13 in the United States (Louisiana and Texas), and 6 in northeastern British Columbia. Of the 23 wells in Alberta, 11 were concentrated in the evaluation of one 39,000-acre block of acreage. The drilling results yielded 27 gas wells, 4 oil wells, and 11 dry holes.

A review of the more significant property developments are as follows:

ALBERTA

North Coleman

The Coseka et al Coleman #10-11 development well was drilled to a total depth of 15,222 feet. During the drilling operations, two lower Palliser (Devonian) zones were encountered, however, subsequent evaluations of the zones established both zones to be water bearing at this location. The well is currently being completed in the known productive intervals of the Devonian and Mississippian zones at depths of 11,200 feet and 9,200 feet, respectively. A 546-foot perforated interval in the Devonian production tested natural gas at rates up to 21 million cubic feet per day at a wellhead flowing pressure of approximately 1,800 psig. This was the highest flow rate achievable due to limitations of surface test equipment. The Absolute Open Flow of the Devonian is calculated to be 126 million cubic feet per day, as compared to 37.4 million cubic feet per day for the Coseka et al Coleman #6-14 well located approximately one mile north. An 840-foot interval is currently being perforated in the Mississippian zone. Following production evaluation of the Mississippian zone, the well will be connected to the gathering system for sales. Further drilling plans will depend on the total deliverability to be available from this well in relation to the increased contract volume granted by the Buyer and the capacity of the Saratoga Processing Plant.

Strachan

Activity on the Strachan property consisted of the drilling of an infill Leduc zone deliverability well. The well has now reached total depth and is in the stage of being completed and tied-in to the Strachan Gas Plant. A shallow Cardium test is to be drilled to the south of the main Leduc Pool.

Otter

Activity in this area, other than producing the two oil wells on the property, remained dormant for over a year. During this period the Company renegotiated its participating interest by acquiring the interest of Petro-Canada (formerly Atlantic Richfield) in return for an overriding royalty position. The Company now has doubled its original interest in the 4,320-acre block to 47.5 percent. Recently a further well was drilled which flowed oil to the surface on a drillstem test. The well is currently being completed. As a result of this recent success, further wells will be drilled.

Swalwell Area

The Company has earned a 25 percent interest in a 640-acre tract in the Swalwell area of central Alberta through the drilling of a Pekisko test. Following completion operations, the Pekisko zone has been tested at initial rates of 350 barrels of oil per day. The well also tested commercial quantities of gas at rates of one million cubic feet per day from the Basal Belly River zone. An option well will be drilled immediately to earn an interest in a further 320 offsetting acres.

Irricana

The Company has acquired, by purchase, farm-ins, and pooling, an interest in 14,256 gross acres. The purchased lands included three suspended Crossfield gas wells dating back to March, 1969. One of the suspended wells has been retested and has exhibited deliverability capacity in the 1.5 to 2.0 million cubic feet per day range. A step-out well is now in the initial drilling stages.

Alderson Area

The Company has earned a 25 percent interest in 61 sections in the Alderson area with the drilling of 9 evaluation wells. A further 4 sections of land were earned with an additional

2 wells. The 11-well program has resulted in 7 completions which have proved up reserves in the Milk River, Second White Specks, and Bow Island zones.

Further activity in the area has been postponed until a more positive gas market is available.

Bruce-Holden

No additional drilling has been carried out during the last six month period. An application has been made to TransCanada PipeLines requesting the assignment of a gas contract covering the proved reserves which the Voyager-Coseka group have established to date.

Atmore Area

A shallow test is proposed to evaluate the Viking, Colony, and Wabiskaw zones in the Atmore area of central Alberta. One well will be drilled on a 3,840-acre block of land on which the Company has a 22.03 percent working interest.

BRITISH COLUMBIA

Birch Area

Through a Crown sale in late 1976 and two subsequent Crown sales in 1977, the Company has established a 50 percent working interest in the acquisition of 12,210 gross acres in the Birch (North Buick Creek) area of northeastern British Columbia at a net cost of $578,312.

The first earning well was completed as a discovery well in the Bluesky zone. Two drilling rigs are currently drilling additional locations.

Louise Area

The Company and its Drilling Fund partner have earned a 50 percent interest in one spacing unit in the Louise area with the drilling of a Sulphur Point test. The well encountered the Sulphur Point zone structurally high and established approximately 121 feet of net gas pay. Testing operations on the well have established an Absolute Open Flow rate of approximately 30 million cubic feet per day. The well is currently being tied-in and will be placed on production shortly.

Gundy Creek

Through both farm-in agreements and Crown sale acquisition, the Company acquired additional lands and increased its land position in the Gundy Creek area. Through the drilling of two development wells on the west structure, the Company will earn an increased interest in 2,800 acres. Also through Crown sale acquisition, the Company purchased an interest in 8,927 gross acres at a total cost to the Company of $175,208. Several additional step-out development wells are proposed along with the drilling of a deeper Mississippian test.

East Parkland

Imperial Oil has indicated it plans a further well on the Company's East Parkland property during the first half of 1977. Currently two wells have been drilled offsetting the East Parkland acreage, one to the west and one to the southwest. Results of the two wells are being held confidential by the respective operators.

Silverberry

The Company earned a 50 percent interest in 6,400 acres in the Silverberry area through the drilling of a 5,800-foot Belloy test. The well established a small amount of gas in the Baldonnel zone, however, subsequent testing operations established the zones to be non-commercial and the well was subsequently abandoned.

Other Northeastern British Columbia Prospects

The Company has recently made a commitment to take a direct 25 percent participation, together with a yet undetermined additional participation through its Drilling Fund Operations, in a multi-well program on a 25,000-acre block of acreage in northeastern British Columbia. Based on detailed geological studies, this acreage has a higher than average potential of containing sizeable quantities of recoverable natural gas reserves. Drilling on this prospect will commence in June.

SASKATCHEWAN

Hatton

The Company purchased a 25 percent interest in a 68,800-acre block which is interspersed with its existing 36,800-acre (30 percent net interest) block. The newly-acquired property contains 32 capped gas wells. A gas purchase contract is now being negotiated for the property and it is anticipated that several infill development wells will be drilled and the existing Hatton Plant expanded to handle the gas developed from this property. The Saskatchewan Power Corporation has agreed to increase the wellhead price for gas from both the original property and the newly-acquired property to 40 cents per thousand cubic feet from the present 27 cent level.

U.S.A.

Athens (Louisiana)

During the last six month period, an additional 1,800 acres have been acquired immediately to the south of the main Athens block of acreage. The Company also increased its working interest participation in the first five wells drilled by direct purchase of a private individual's holdings. The Company's interest in the said five wells has accordingly been increased to approximately 22.5 percent from 17.8 percent. The continuous development program has now resulted in 12 Hosston and two Cotton Valley gas wells. The 15th well will be spudded in approximately two weeks. The field is now producing at 13 million cubic feet per day, with 150 barrels per day of condensate from 9 connected wells. This producing rate will be progressively increased as the new wells are connected to the pipeline system and additional sales contracts completed. It is anticipated, based on current negotiations, that two wells will immediately be connected to a Buyer at a wellhead price of $2.25 per thousand cubic feet. This is in contrast to $1.70 being received for current production.

Northwest Athens (Louisiana)

The Company, in conjunction with its Drilling Fund partner, committed to earn a 50 percent interest in a 3,000-acre block immediately north and west of the existing Athens field. An earning well is now being drilled and has tested commercial quantities of gas from the Hosston zone. The well is to be taken down to a total depth of 9,600 feet to evaluate the Cotton Valley formation.

South Slick Creek (Wyoming)

The Company and its Drilling Fund partner have earned a 62.5 percent working interest in a 2,120-acre block of land and also options in a further 372 gross acres. A 10,000-foot Phosphoria test has been drilled and is now being completed. The well contains four potential producing horizons.

South Frisby Area (Wyoming)

Approximately five miles to the northwest of the South Slick Creek acreage, the Company and its Drilling Fund partner have earned a 62.5 percent interest in 1,040 acres through

the drilling of a 10,000-foot Phosphoria test. The well is currently being completed and evaluations indicate two potential producing horizons. The deepest zone was recently "swab" tested (prior to a planned major acidization treatment currently underway) at a rate of 500 barrels of oil per day. The oil is of high quality and commands a price of approximately $14.00 per barrel.

South Texas Area
In partnership with the Company's Drilling Fund partner, a fourth well was drilled on the Nueces Bay block and has been completed as a dual oil and gas producer. Six new drilling prospects have been committed to in the South Texas area. To date, three have been drilled, the first prospect being dry, the second, West Coloma, has been classified as a discovery well and is now being completed as a potential oil and gas producer. The third well, South Haldeman, is also being classified as a discovery well and is being completed as a potential oil and gas producer.

West Texas Area
Several prospects have been committed to in the West Texas area in partnership with the Company's Drilling Fund partner. The first well encountered a thin oil column in the Fusselman zone. Subsequent testing operations indicate the zone to be too thin to be commercial and the well was abandoned.

Pumpkin Creek Area (Montana)
The Company and its Drilling Fund partner have acquired 7,150 acres in the Pumpkin Creek area of northern Montana. Drilling on the prospects has been deferred pending negotiations of obtaining additional land.

Panoma-Hugoton (Kansas)
A change in the operatorship of the property has now been completed and an extensive drilling program is to be initiated shortly on the 224,000-acre block of Company interest acreage.

DRILLING FUND OPERATIONS

A continuation of the Drilling Fund Operation with its West German Drilling Fund partner is to be maintained. Prospects have been committed to in South Texas, West Texas, West Louisiana, Northern Utah, Central Wyoming, and Northeastern British Columbia.

Respectfully submitted,

P. R. KUTNEY,
President.

March 25, 1977.

CONSOLIDATED STA
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REVENUE
LESS: ROYALTY PAYMENTS
NET REVENUE
OPERATING EXPENSES
ADMINISTRATIVE EXPENSE (NET OF RECOVERY)

FUNDS GENERATED FROM OPERATIONS
PROVISION FOR DEPLETION, DEPRECIATION, AND
PROVISION FOR INCOME TAXES, DEFERRED

INCOME BEFORE MINORITY INTERESTS
MINORITY INTERESTS
NET INCOME FOR THE PERIOD

EARNINGS PER SHARE
Weighted Average:
Funds Generated by Operations (Cash Flow
Net Income For The Period
Fully Diluted:
Funds Generated by Operations (Cash Flow
Net Income For The Period

CONSOLIDATED STATEMENT OF
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FUNDS PROVIDED:
Operations
Debenture Conversion Series "A"
Proceeds of Common Shares Issued (Note 1)
Production Loans
Deferred Income
Proceeds, Resource Allowance, Province of Alb
Total Funds Provided

FUNDS APPLIED:
Property, Plant and Equipment
Reduction of Production Loans
Other
Total Funds Applied

INCREASE (DECREASE) IN WORKING CAPITAL FOF
WORKING CAPITAL (DEFICIENCY) AT BEGINNING
WORKING CAPITAL (DEFICIENCY) AT END OF PEF

Note 1: Certain material Share Purchase Options, during this period, as well as the exer $129,800.